IHS Markit
Philippines Manufacturing PMI®

Renewed fall in output in July

Key findings

Business conditions worsen as manufacturers see fall in production

New orders decrease modestly, amid much quicker drop in exports

Employment declines at sharpest pace in four months

Despite some positive signs towards recovery in June, the latest PMI data signalled that operating conditions across the Philippines’ manufacturing sector worsened again during July. Firms saw a renewed fall in output levels, as new work continued to decline and export demand weakened sharply. Job losses extended into the third quarter, while business confidence also slid due to concerns of the long-term impact from the pandemic.

The IHS Markit Philippines Manufacturing PMI® dropped from 49.7 in June to 48.4 in July, to signal a moderate decline in operating conditions in the latest survey period. The headline index fell for the first time since April, having approached the 50.0 growth threshold at the end of the second quarter.

With parts of the country experiencing further lockdown restrictions, such as in Manila and Cebu, the recovery in output levels stalled in July. Production declined only modestly, but nonetheless erased the slight improvement seen in June which was supported by steps to reopen the economy.

Furthermore, manufacturers saw a decline in new orders for the fifth consecutive month, with the rate of contraction quickening for the first time since April. While the overall decrease in new work was modest, it signalled that clients remain uncertain and hesitant in their purchasing. The downturn was also driven by a much more severe fall in new export orders during July. While foreign markets have relaxed COVID-19 measures, ongoing restrictions in Filipino cities have meant some firms were unable to sell to external customers.

Companies highlighted that the supply of raw materials was again stretched in July, contributing to limited production and lower sales. Delivery times lengthened at a marked pace as suppliers continued to operate with smaller workforces. Road checkpoints and the lack of air freight services also made it difficult to acquire inputs, according to surveyed firms.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

“The latest Philippines Manufacturing PMI data showed that conditions are yet to improve at the start of the third quarter. It was hoped that June PMI numbers would signal the start of a recovery for manufacturers, as output tentatively increased. However, production levels dropped back into contraction territory in July, while new orders decreased for the fifth month in a row.

“As parts of the country remained under lockdown, goods producers appeared to lose out in terms of foreign trade, as new export sales fell dramatically despite the relative easing of global restrictions. While domestic demand may stabilise, it will be important for businesses to re-strengthen foreign sales in order to recover from this period of (likely) deep recession. IHS Markit forecasts a -6% annual drop in GDP in the second quarter.

"Jobs are also a long way from returning to pre-COVID levels, with latest data signalling a steep fall in employment again in July. With unused capacity still apparent amid a fall in outstanding orders, it could be a while before firms bolster their payroll numbers."

Data were collected 13-24 June 2020.
With the health of the manufacturing sector worsening, firms cut payroll numbers for the fifth successive month in July. Notably, the rate of job shedding was the quickest since March. Firms also reported a drop in backlogs that was the most marked in four months, indicating there was still unused capacity at factory plants.

A renewed fall in production led companies to reduce procurement of inputs in the latest survey period. Stocks of both raw materials and finished items were depleted, partly in an effort to cut inventory costs.

Meanwhile, input prices rose for the third month running in July as companies continued to face supply constraints. Higher oil prices were mentioned by panellists as contributing to an increase in total costs. Notably, the rate of inflation was the fastest for nearly a year-and-a-half.

Higher costs were partly passed on to consumers through a rise in output charges. That said, the increase was marginal and weaker than the uptick in input costs. Some firms mentioned that pricing power remained weak due to subdued sales, leading them to lower charges in an effort to strengthen client demand.

Business expectations for the coming 12 months weakened for the first time since March in July, as fewer-than-half of all respondents gave a positive prediction for output growth. Companies that were more pessimistic noted that they expect COVID-19 to have a long-term impact on production. That said, others hoped that demand would increase once restrictions were fully lifted and consumer confidence improved.

Methodology
The IHS Markit Philippines Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. July 2020 data were collected 13-24 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.